

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

January 7, 2004



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SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

January 7, 2004

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Basic Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2003

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December 17, 2003

Independent Auditor's Report
on the Financial Statements

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Southern University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of management of the Southern University System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern University System as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003, on our consideration of the Southern University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDITOR

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Audit Report, June 30, 2003

Management's discussion and analysis on pages 4 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large, stylized initial "G".

Grover C. Austin, CPA
First Assistant Legislative Auditor

RC:WG:PEP:dl

[SU03]

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overview of the Financial Statements and Financial Analysis

This document presents the Management Discussion and Analysis (MD&A) and financial statements for the Southern University and A&M College System for fiscal year 2003. The discussion and analysis of the System's financial statements provides a general overview of the financial activities of the System's institutions for the year. The emphasis of discussions about these statements will be on the current year financial data. The notes to the financial statements provide a summary of some of the significant accounting policies affecting all financial transactions of the System's institutions. The primary financial statements presented are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the Southern University System as of the end of fiscal year 2003. The purpose of the Statement of Net Assets is to present to the readers of the financial statements, a fiscal snapshot of the Southern University System. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets will be discussed in the notes to the financial statements.

From the data presented, readers of the Statement of Net Assets can determine the assets available to continue the operations of the System. They are also able to determine how much the Southern University System's institutions owe vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a summary of the combined net assets (assets minus liabilities) and their availability for expenditure by the institutions.

Categories of Net Assets

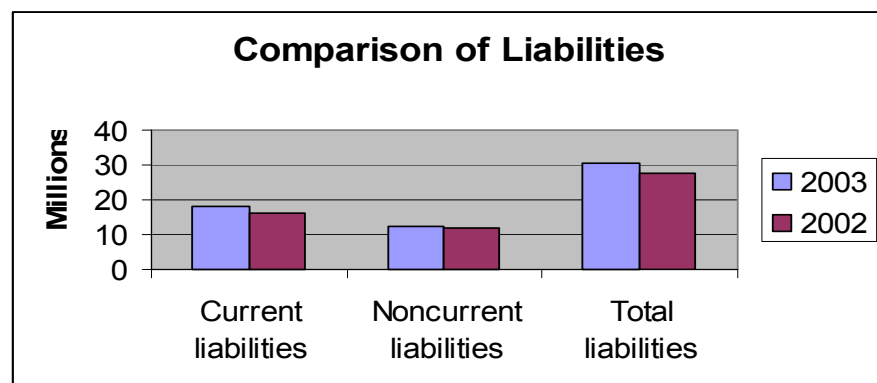
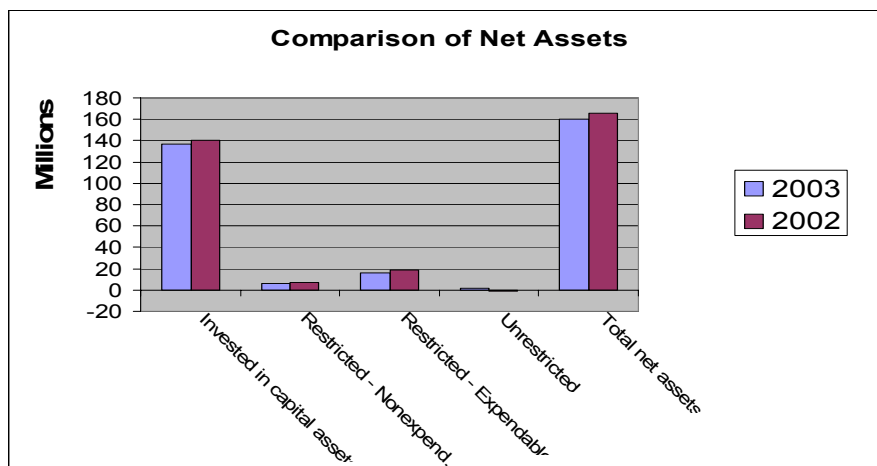
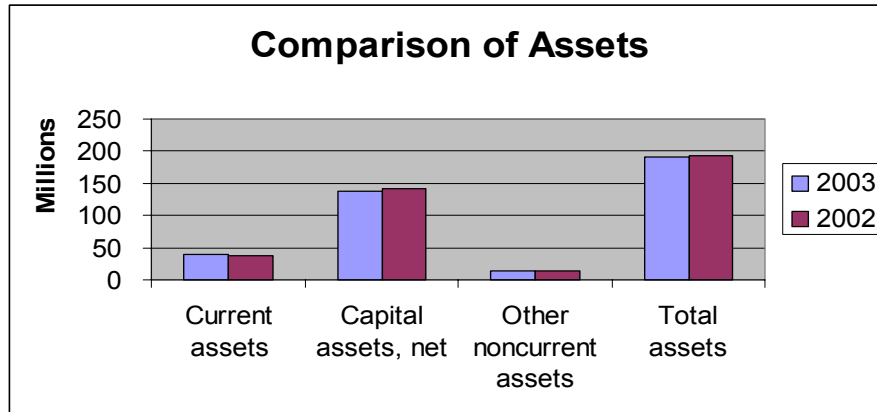
Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, indicates the total equity in property, plant and equipment that is owned by all of the System's institutions. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted resources is only available for investment purposes. The expendable restricted net assets are available for expenditure by the various institutions but must be spent for the purposes that are designated by donors or external entities that placed the time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the institutions of the System to be used for any lawful purpose.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Comparative Statement of Net Assets
For the Fiscal Years Ended
June 30, 2002 and 2003

	<u>2003</u>	<u>2002</u>	<u>Percent Change</u>
Assets			
Current assets	\$38,966,855	\$37,582,488	4%
Capital assets, net	137,558,536	140,925,570	-2%
Other noncurrent assets	<u>14,645,300</u>	<u>14,638,921</u>	0%
Total assets	<u>191,170,691</u>	<u>193,146,979</u>	-1%
Liabilities			
Current liabilities	18,044,189	16,044,242	12%
Noncurrent liabilities	<u>12,566,483</u>	<u>11,716,870</u>	7%
Total liabilities	<u>30,610,672</u>	<u>27,761,112</u>	10%
Net Assets			
Invested in capital assets, net of related debt	137,010,771	140,237,452	-2%
Restricted:			
Nonexpendable	6,095,243	6,988,613	-13%
Expendable	16,170,932	19,161,967	-16%
Unrestricted	<u>1,283,073</u>	<u>(1,002,165)</u>	228%
Total net assets	<u><u>\$160,560,019</u></u>	<u><u>\$165,385,867</u></u>	-3%

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)



**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Management's Discussion and Analysis (Continued)

The total assets of the System decreased by \$1,976,288, a decrease of 1%. The consumption of assets follows the System's philosophy to use available resources to acquire and improve all areas of the System's institutions, to better serve the instruction, research and public service missions of the institutions.

Statement of Revenues, Expenses, and Changes in Net Assets

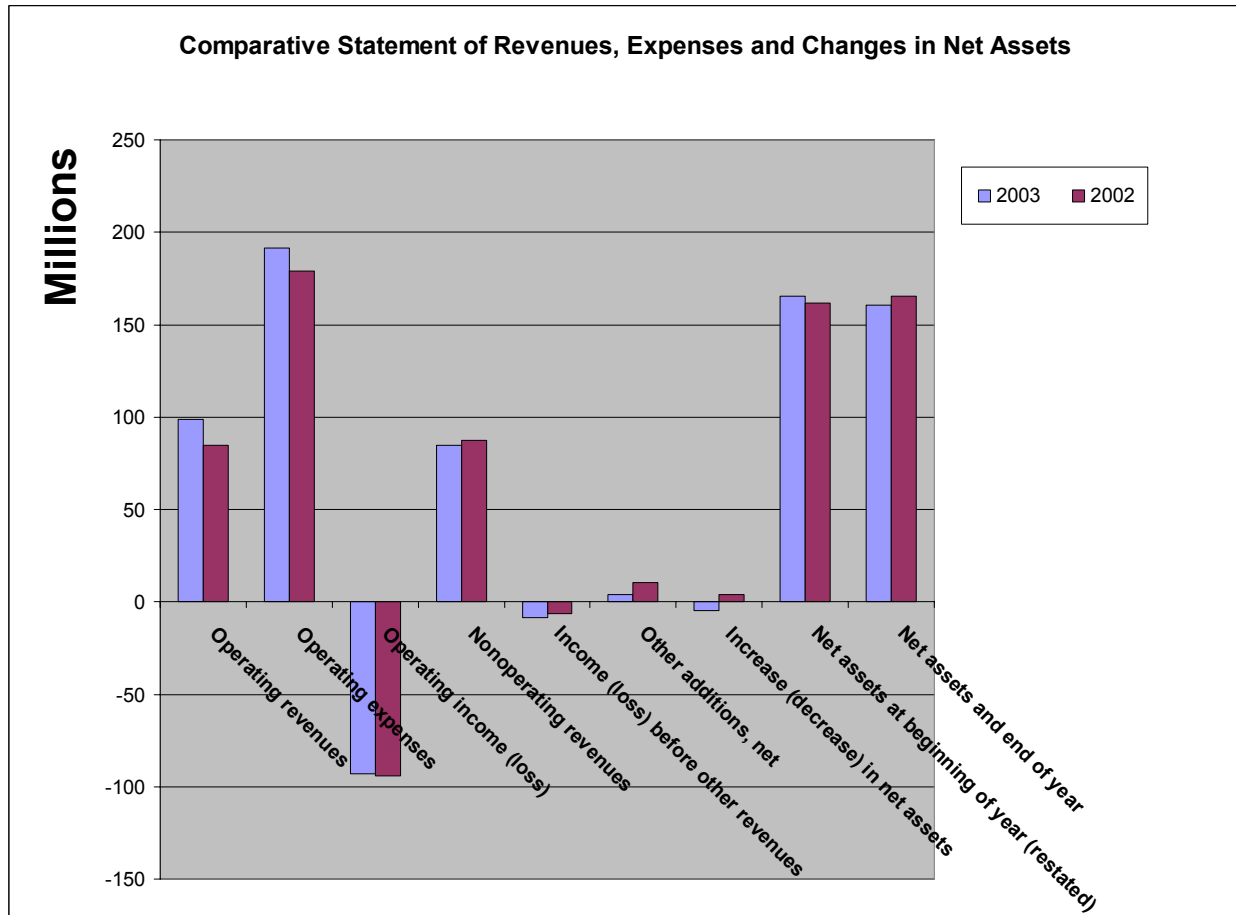
Changes in total net assets, as presented on the Statement of Net Assets, are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received and expenses paid by the System's institutions for both operating and nonoperating purposes. The statement includes any other revenues, gains, expenses or losses that were realized or incurred by the institutions during the fiscal year.

The operating revenues are received for providing goods and services to the various customers and constituencies of the institutions. The operating expenses are those expenses incurred to acquire or produce the goods and services that are provided in return for the operating revenues that are received to carry out the missions of the institutions. Nonoperating revenues are revenues received for which goods and services are not provided in an exchange for the revenues received. For example, state appropriations are considered nonoperating because they are provided by the legislature to the institutions even though the legislature does not receive, directly in return, goods and services for those revenues.

**Comparative Statement of Revenues, Expenses,
and Changes In Net Assets
For the Fiscal Years Ended
June 30, 2002 and 2003**

<u>Items</u>	<u>2003</u>	<u>2002</u>	<u>Percent Change</u>
Operating revenues	\$98,522,602	\$84,682,333	16%
Operating expenses	191,453,164	178,809,786	7%
Operating income (loss)	(92,930,562)	(94,127,453)	1%
Nonoperating revenues	84,500,338	87,581,847	-4%
Income (loss) before other revenues, expenses, gains, and losses	(8,430,224)	(6,545,606)	-29%
Other additions, net	3,772,740	10,258,050	-63%
Increase (decrease) in net assets	(4,657,484)	3,712,444	-225%
Net assets at beginning of year (restated)	165,217,503	161,673,423	2%
Net assets at end of year	160,560,019	165,385,867	-3%

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)



The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with a decrease in the net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

Beginning the 2001 fall semester, Southern University and Agricultural and Mechanical College at Baton Rouge implemented selective admission for the first time in its history. As expected, the University experienced a modest decline in enrollment. Anticipating this decline, budget adjustments were made to offset the reduction in revenues in order to maintain a balanced budget. The impact resulting from the budget reductions that were made still poses challenges in the management process.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Management's Discussion and Analysis (Continued)

The revenues for Southern University at Shreveport increased approximately 6% over fiscal year 2002. The majority of the increase can be attributed to self-generated revenues that were realized from a 21% increase in student enrollment. In addition, there was a small increase in state appropriations during fiscal year 2003. The University is projecting this trend to continue in fiscal year 2004.

The compensation and employee benefits category increased during the fiscal year. The University implemented a faculty pay plan to bring the salaries of all faculty members closer to their respective disciplines, per the 2001-2002 SREB salary averages. Other unclassified employees on the Baton Rouge and Shreveport campuses were provided a salary increase of 5% of their annual base salary. There is a direct correlation between salaries and employer contributions toward benefits for retirees; accordingly, an increase in related benefits is also noted.

The Agricultural Research and Extension Center was appropriated \$1,000,000 by the state from the tobacco funds to support Youth Programs, the SU Museum of Art, and the Historical District. The Center expanded its Youth Programs related to outreach efforts. The SU Museum of Art and the Historical District were provided additional support that was needed.

The cumulative effects of the University recording depreciation on capital assets and making a change in the recognition of summer session revenues, during fiscal year 2002, are reflected in the financial statements. The changes were made to comply with the Governmental Accounting Standards Board's Statements 34 and 35 and the directives issued by the Division of Administration, Office of Statewide Reporting and Accounting Policy for the State of Louisiana.

Simplified Statement of Activities

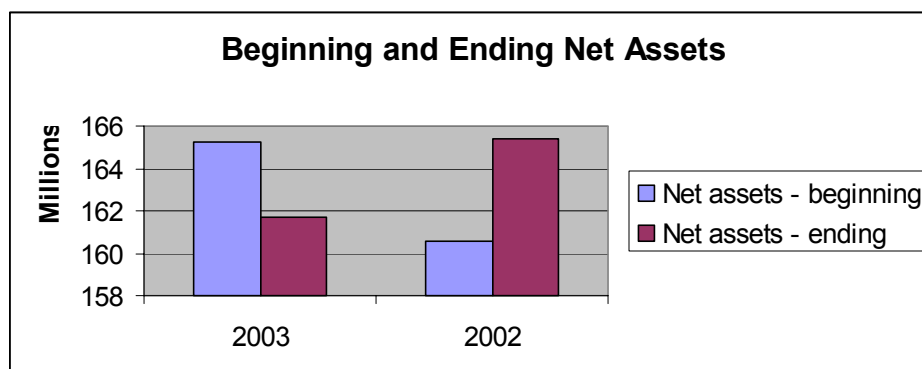
A Statement of Activities is neither included nor required in the basic financial statements. However, the Simplified Statement of Activities presented below provides a summary of program revenues, consisting of charges for services, operating grants and contributions, and capital grants and contributions, minus expenses, leaving a balance that is identified as net (expense) revenue and changes in net assets.

General revenues are identified as to source; state appropriations, grants and contributions not restricted to specific programs, interest, and miscellaneous. Special items are summarized, and a change in net assets is reflected, after which, net assets - beginning, and net assets - ending for the fiscal year shown.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

Comparative Simplified Statement of Activities
For the Fiscal Years Ended
June 30, 2002 and 2003

	<u>2003</u>	<u>2002</u>	<u>Percent Change</u>
Expenses	(\$191,548,848)	(\$175,710,494)	9%
Less:			
Program revenues:			
Charge for services	35,723,764	39,763,090	-10%
Operating grants and contributions	58,810,252	45,891,524	28%
Capital grants and contributions	2,815,217	857,840	228%
Net (expenses)	<u>(94,199,615)</u>	<u>(89,198,040)</u>	6%
Add:			
General revenues - state appropriations	<u>74,441,882</u>	<u>70,131,709</u>	6%
Grants and contributions not restricted to specific programs	631,714	13,973,595	-95%
Interest	397,842	494,828	-20%
Micellaneous	<u>14,070,693</u>	<u>8,310,352</u>	69%
Total general revenues, special items, and transfers	89,542,131	92,910,484	-4%
Change in net assets	(4,657,484)	3,712,444	-225%
Net assets - beginning (restated)	165,217,503	161,673,423	2%
Net assets - ending	160,560,019	165,385,867	-3%



**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Management's Discussion and Analysis (Continued)

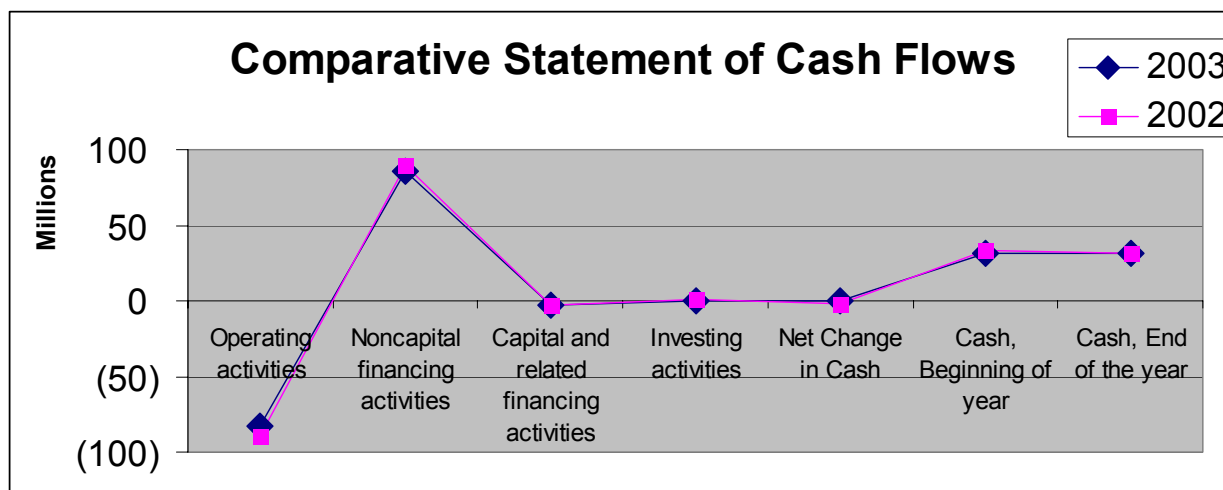
Statement of Cash Flows

The final statement presented by the Southern University System is the Statement of Cash Flows. The Statement of Cash Flows presents summary information about the combined cash activity of the institutions during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institutions. The second section reflects cash flows from noncapital financing activities or the cash received and spent for nonoperating, non-investing, and noncapital financing purposes. The third section includes cash flows from capital and related financing activities, such as the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

**Comparative Statement of Cash Flows
For the Fiscal Years Ended June 30, 2002 and 2003**

	<u>2003</u>	<u>2002</u>	<u>Percent Change</u>
Cash provided (used) by:			
Operating activities	(\$83,137,487)	(\$89,877,495)	7%
Noncapital financial activities	85,424,816	89,624,323	-5%
Capital and related financing activities	(2,576,173)	(2,910,604)	11%
Investing activities	371,310	838,473	-56%
Net change in cash	82,466	(2,325,303)	104%
Cash, beginning of year	31,299,792	33,625,095	-7%
Cash, end of year	31,382,258	31,299,792	0%

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)



Capital Assets and Debt Administration

The combined total of capital assets, net of accumulated depreciation at year-end, is \$137,558,536.

The Southern University System's institutions retired \$140,353 in Bonds Payable during the fiscal year. The System did not enter into any new long-term debt during the year. The total amount of long-term debt is \$12,566,483. Included in that sum are the following:

- Compensated Absences Payable - \$12,166,071
- Bonds Payable - \$400,412

For additional information concerning Capital Assets and Debt Amortization, refer to Note I in the Notes to the Financial Statements.

BUDGETARY PRACTICES

The annual budget for the General Fund of the university is established by annual legislative action and by Title 39 of the Louisiana Revised Statutes. The submission of the budget for approval by the Southern University Board of Supervisors, the Louisiana Board of Regents, and other external bodies is required in the budgetary process. The other funds of the university, although subject to internal budgeting, are not required to be submitted for approval through the legislative budget process. State law provides that appropriations lapse at the end of the fiscal year. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting with certain exceptions as described in the notes.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Management's Discussion and Analysis (Continued)

The following is an appropriation budgetary comparison for current year General Fund appropriations:

Budgetary Comparison for General Fund Appropriations
For the Year Ended June 30, 2003

	Original	Final	Actual	Adjustment to Budget Basis	Actual on Budget Basis	Variance Favorable (Unfavorable)
REVENUES						
Appropriated by legislature:						
State General Fund (direct)	\$68,795,365	\$71,443,968	\$70,957,496	\$338	\$70,957,834	(\$486,134)
State General Fund by self-generated revenues	41,171,982	41,650,309	32,171,024	5,088,523	37,259,547	(4,390,762)
State General Fund by self-interagency transfers	1,787,235	1,787,235	1,565,958		1,565,958	(221,277)
Federal funds	2,583,592	2,583,592	2,583,592	119,808	2,703,400	119,808
Other	4,792,430	4,792,430	4,792,430	705,720	5,498,150	705,720
Total revenues	119,130,604	122,257,534	112,070,500	5,914,389	117,984,889	(4,272,645)
EXPENDITURES						
Program expenditures	119,130,604	122,257,534	110,031,961	6,806,691	116,838,652	5,418,882
UNEXPENDED APPROPRIATION - CURRENT YEAR	<u>NONE</u>	<u>NONE</u>	<u>\$2,038,539</u>	<u>(\$892,302)</u>	<u>\$1,146,237</u>	<u>\$1,146,237</u>

Economic Outlook - Short Term

The System's overall financial position is strong, even though the financial statements do not show this. The decrease in net assets shown results from the reporting requirements that were promulgated for public colleges and universities by the Governmental Accounting Standards Board's Statements Nos. 34 and 35.

The Southern University System's institutions (with the exceptions of Southern University at Shreveport and the Southern University Law Center) have experienced a decrease in enrollment; specifically, Southern University at Baton Rouge and Southern University at New Orleans. The decline in enrollment at Southern University and A & M College at Baton Rouge, attributed to the implementation of selective admission, has resulted in a decrease in self-generated revenues. Cost cutting measures have been implemented to ensure the financial stability of both of the institutions affected by a decline in enrollment.

With relatively flat funding for the year, and a decrease in enrollment, the System had a modest decrease in net assets. The System's management anticipates that the current fiscal year will be much like fiscal year 2003, and it will maintain a close watch over available resources of the System in order to ensure the System's ability to react to unknown internal and external issues in a timely manner.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Management's Discussion and Analysis (Concluded)

**Implementation of Enrollment Management
Programs and Activities**

Aggressive steps are being taken to implement enrollment management programs and activities at each of the institutions that have academic programs. Assistance in the form of financial support and professional consultants has been provided to the four-year institutions to aid in the achievement of designated enrollment management goals.

Contingent Liabilities

The Southern University at New Orleans campus has received a "final program determination letter," from the United States Department of Education, requesting reimbursement of \$1,367,586 in federal funds. These funds were disbursed to students which have, subsequently, been deemed to be ineligible. The University has appealed the finding, and it has been granted additional time to provide documentation to support a request for a reduction in the amount. Currently, the University is developing documentation for submission in support of its appeal.

The management of the System is not aware of any other facts, decisions, or conditions, other than general economic conditions, that are expected to have a significant effect on the financial position or operations of the institutions during fiscal year 2004.

Economic Outlook - Long Term

There is concern within the University System regarding adequate and continuous funding to support programs that are being implemented under the United States versus State of Louisiana Settlement Agreement. The Southern University System received \$3,641,193 to support implementation of the programs during fiscal year 2003. The Agreement is scheduled to expire on the 31st day of December 2005. A firm commitment is needed regarding funding, upon expiration of the Desegregation Settlement Agreement, so that stability and program productivity can be maintained. The lack of a firm commitment regarding continuous funding leads to speculation, which has a negative impact on the desired outcomes at the institutions responsible for the programs.

The Agricultural Research and Extension Center's base funding comes from federal appropriation that has a state match requirement. Currently, both the amount of federal appropriation and the percent of match required are going to increase. This poses tremendous pressure on the Center to continue to secure additional state appropriations. Also, it is important that the funds associated with settling land grant issues be received so that the programs envisioned can be implemented as agreed.

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**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**Statement of Net Assets
June 30, 2003**

ASSETS

Current assets:

Cash and cash equivalents (note 2)	\$22,221,632
Receivables (net) (note 4)	15,555,165
Inventories	196,539
Deferred charges and prepaid expenses	586,319
Notes receivable (net) (note 5)	397,848
Other current assets	9,352
Total current assets	<u>38,966,855</u>

Noncurrent assets:

Restricted cash and cash equivalents (note 2)	9,160,626
Investments (note 3)	3,908,431
Receivables (net) (note 4)	1,576,243
Capital assets (net) (note 6)	137,558,536
Total noncurrent assets	<u>152,203,836</u>
Total assets	<u>191,170,691</u>

LIABILITIES

Current liabilities:

Accounts payables and accruals (note 12)	10,033,972
Deferred revenues (note 11)	6,207,400
Compensated absences (note 10)	504,111
Amounts held in custody for others	803,060
Bonds payable - current portion (note 13)	147,353
Other current payables	348,293
Total current liabilities	<u>18,044,189</u>

Noncurrent liabilities:

Compensated absences (note 10)	12,166,071
Bonds payable (note 13)	400,412
Total noncurrent liabilities	<u>12,566,483</u>
Total liabilities	<u>30,610,672</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Net Assets, 2003**

NET ASSETS

Invested in capital assets, net of related debt	\$137,010,771
Restricted for (note 16):	
Nonexpendable	6,095,243
Expendable	16,170,932
Unrestricted	<u>1,283,073</u>
TOTAL NET ASSETS	<u><u>\$160,560,019</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2003**

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$13,306,756)	\$23,309,756
Federal appropriations	2,702,742
Federal grants and contracts	53,915,575
State and local grants and contracts	2,049,520
Nongovernmental grants and contracts	81,000
Sales and services of educational departments	4,127
Auxiliary enterprise revenues (net of scholarship allowances of \$2,211,312)	12,409,881
Other operating revenues	4,050,001
Total operating revenues	98,522,602

OPERATING EXPENSES

Educational and general:	
Instruction	52,201,260
Research	4,611,603
Public service	6,253,365
Academic support	25,698,140
Student services	15,297,391
Institutional support	29,853,238
Operation and maintenance of plant	13,766,925
Depreciation	8,528,319
Scholarships and fellowships	19,774,450
Auxiliary enterprises	14,232,059
Other operating expenses	1,236,414
Total operating expenses	191,453,164

OPERATING LOSS (92,930,562)

NONOPERATING REVENUES (Expenses)

State appropriations	74,441,882
Gifts	631,714
Investment income	395,450
Interest expense	(95,684)
Other nonoperating revenues	9,126,976
Net nonoperating revenues (expenses)	84,500,338

(Continued)

The accompanying notes are an integral part of this statement.

Statement B**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Revenues, Expenses, and
Changes in Net Assets, 2003**

Loss before other revenues	(\$8,430,224)
Capital appropriations	1,464,663
Capital grants and gifts	1,350,554
Additions to permanent endowment	61,415
Other additions, net	896,108
Increase (decrease) in net assets	<u>(4,657,484)</u>
NET ASSETS	
Net assets - beginning of year (restated) (note 17)	<u>165,217,503</u>
NET ASSETS - END OF YEAR	<u><u>\$160,560,019</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$22,790,829
Grants and contracts	58,475,340
Payments to suppliers	(39,821,257)
Payments for utilities	(5,193,296)
Payments to employees	(96,677,796)
Payments for benefits	(19,104,097)
Payments for scholarships and fellowships	(20,317,245)
Loans issued to students and employees	(68,168)
Auxiliary enterprise charges	12,747,419
Sales and services of educational departments	4,127
Other receipts	4,026,657
Net cash used by operating activities	<u>(83,137,487)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	74,442,152
Gifts and grants for other than capital purposes	6,565,448
Private gifts for endowment purposes	61,415
Direct lending receipts	1,354,955
Direct lending payments	(1,354,955)
TOPS receipts	3,119,387
TOPS disbursements	(3,123,826)
Federal family education loan program receipts	88,628,886
Federal family education loan program disbursements	(88,628,886)
Student organization agency transactions	22,522
Other receipts	4,337,718
Net cash provided by noncapital financing sources	<u>85,424,816</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital appropriations received	1,464,663
Capital grants and gifts received	1,350,554
Purchases of capital assets	(5,161,285)
Principal paid on capital debt and leases	(140,353)
Interest paid on capital debt and leases	(89,752)
Net cash used by capital financing activities	<u>(2,576,173)</u>

(Continued)

The accompanying notes are an integral part of this statement.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Statement of Cash Flows, 2003**

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments	(\$39,049)
Interest received on investments	411,665
Purchase of investments	(1,306)
Net cash provided for investing activities	371,310

Net increase in cash and cash equivalents 82,466

Cash at beginning of the year 31,299,792

Cash at year-end \$31,382,258

**RECONCILIATION OF NET OPERATING REVENUES (Expenses)
TO NET CASH PROVIDED (Used) BY OPERATING ACTIVITIES:**

Operating income (loss)	(\$92,930,562)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation expense	8,528,319
Adjustment to depreciation expense	(168,364)
Changes in assets and liabilities:	
Increase in accounts receivable (net)	(1,701,101)
Decrease in due from federal government	383,163
Decrease in inventories	45,159
Increase in prepaid expenses	(92,715)
Decrease in other assets	419
Increase in accounts payable	2,301,520
Decrease in deferred revenue	(346,866)
Increase in compensated absences	1,024,218
Decrease in other liabilities	(112,509)
Decrease in loans payable to students and employees	(68,168)
Net cash provided (used) by operating activities	<u><u>(\$83,137,487)</u></u>

(Concluded)

The accompanying notes are an integral part of the financial statements.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2003

INTRODUCTION

The Southern University System is a publicly supported institution of higher education. The university is a component unit of the State of Louisiana, within the executive branch of government. The university is under the management and supervision of the Southern University Board of Supervisors; however, the annual budget of the university and changes to the degree programs, departments of instruction, et cetera, require the approval of the Louisiana Board of Regents. The board of supervisors is comprised of 17 members appointed by the governor with consent of the Louisiana Senate for a six-year term and one student member appointed for a one-year term by a council composed of the student body presidents of the university. As a state university, operations of the university's instructional programs are funded through annual lapsing appropriations made by the Louisiana Legislature.

In April 1880, Southern University was chartered by the General Assembly of the State of Louisiana. The first site of the university was in New Orleans on Calliope Street and the university opened on March 7, 1881, with 12 students. In 1890, an Agriculture and Mechanical Department was established, and in 1891, Southern University was recognized by the Federal Government as a Land Grant College under the Federal Act of 1890, known as the Second Morrill Act. In 1914, Southern University in New Orleans was closed by legislative authorization, and Southern University was opened in Scotlandville, Louisiana. It is now the Southern University System, composed of campuses located in Baton Rouge, New Orleans, and Shreveport and is managed by the Southern University Board of Supervisors. The New Orleans and Shreveport campuses were established in September 1959 and September 1967, respectively.

The universities offer numerous bachelor degrees in the areas of agriculture, arts and humanities, business, education, science, engineering, and home economics. In addition, master degrees are offered in the Graduate School and Jurist Doctorate degrees are offered through the university's Law Center. During the summer, fall, and spring semesters of the 2002-2003 fiscal year, the university conferred 2,166 degrees, and student enrollment was 35,013. Southern University has 933 faculty members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The accompanying financial statements have been prepared in accordance with such principles.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. As a component unit of the State of Louisiana, the Southern University System was required to adopt GASB Statement Nos. 34 and 35, as amended by GASB Statement Nos. 36, 37, and 38. The financial statement presentation required by GASB Statement Nos. 34 and 35 replaces the fund-group perspective previously required and provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

B. REPORTING ENTITY

The GASB, Code Section 2100, has defined the governmental reporting entity to be the State of Louisiana. The university system is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) a majority of the members of the governing board are appointed by the governor; (2) the state has control and exercises authority over budget matters; (3) state appropriations provide the largest percentage of total revenues; (4) the state issues bonds to finance certain construction; and (5) the system primarily serves state residents. The accompanying financial statements present information only as to the transactions of the programs of the Southern University System, a component unit of the State of Louisiana.

Annually, the State of Louisiana issues basic financial statements, which include the activity contained in the accompanying financial statements. The basic financial statements are audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the system is considered a special-purpose government engaged only in business-type activities. All activities of the system are accounted for within a single proprietary (enterprise) fund. Accordingly, the Southern University System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The system has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The institution has elected to not apply FASB pronouncements issued after the applicable date.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

D. BUDGET PRACTICES

The State of Louisiana's appropriation is an annual lapsing appropriation established by legislative action and by Title 39 of the Louisiana Revised Statutes. The statute requires that the budget be approved by the Board of Regents for Higher Education and certain legislative and executive agencies of state government. The Joint Legislative Committee on the Budget grants budget revisions. In compliance with these legal restrictions, budgets are adopted on the accrual basis of accounting, except that (1) depreciation is not recognized; (2) leave costs are treated as budgeted expenditures to the extent that they are expected to be paid; (3) summer school tuition and fees and summer school faculty salaries and related benefits for June are not prorated but are recognized in the succeeding year; and (4) inventories are recorded as expenditures at the time of purchase.

**E. CASH AND CASH EQUIVALENTS
AND INVESTMENTS**

The system defines cash as cash on hand, demand deposits, and interest-bearing demand deposits. Cash equivalents include time deposits. Under state law, the system may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the system may invest in certificates of deposit of state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Cash equivalents reported on the Statement of Net Assets include all negotiable certificates of deposit, regardless of maturity. These terms are also used in the preparation of the Statement of Cash Flows.

In accordance with Louisiana Revised Statute (R.S.) 49:327, the system is authorized to invest funds in direct United States Treasury obligations, United States government agency obligations, and money market funds. In addition, funds derived from gifts and grants, endowments, and reserve funds established in accordance with bond issues may be invested as stipulated by the conditions of the gift instrument or bond indenture. Investments maintained in investment accounts in the Southern University System Foundation are authorized by policies and procedures established by the Board of Regents. Investments are reported at fair value in accordance with GASB Statement 31. Changes in the carrying value of investments, resulting from unrealized gains and losses, are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. INVENTORY

Inventories are valued at the lower of cost or market on the weighted-average basis. The system uses periodic and perpetual inventory systems and accounts for its inventories using the consumption method.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

G. NONCURRENT CASH AND INVESTMENTS

Cash that is externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets is reported as noncurrent assets. Noncurrent investments consist of endowments and similar type accounts for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity. Some cash and all investments are classified as noncurrent assets in the Statement of Net Assets.

H. CAPITAL ASSETS

Capital assets are reported at cost at the date of acquisition or their estimated fair value at the date of donation. For movable property, the institution's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if they exceed \$100,000. Any infrastructure exceeding \$3 million is also capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings and infrastructure, 20 years for depreciable land improvements, and 3 to 10 years for most movable property.

I. DEFERRED REVENUES

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

J. COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with state law and administrative regulations. The leave is accumulated without limitation; however, nine-month faculty members do not accrue annual leave but are granted faculty leave during holiday periods when students are not in classes. Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned.

Upon separation of employment, both classified and non-classified personnel or their heirs are compensated for accumulated annual leave not to exceed 300 hours. In addition, academic and non-classified personnel or their heirs are compensated for accumulated sick leave not to exceed 25 days upon retirement or death. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

payment for annual and sick leave that would otherwise have been used to compute years of service for retirement. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits.

Upon termination or transfer, a classified employee will be paid for any one and one-half hour compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the classified employee's hourly rate of pay at termination or transfer.

K. NONCURRENT LIABILITIES

Noncurrent liabilities include (1) principal amounts of revenue bonds payable with maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets. Revenue bonds payable are reported at face value.

**L. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The Southern University System provides certain continuing health care and life insurance benefits for its retired employees. The system recognizes the cost of providing these retiree benefits as an expense when paid during the year.

M. NET ASSETS

Net assets comprise the various net earnings from operation, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following components:

- (a) Invested in capital assets, net of related debt consists of the system's total investment in capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or other borrowings attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets - nonexpendable consist of endowments and similar type funds for which donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- (c) Restricted net assets - expendable consist of resources that the system is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

- (d) Unrestricted net assets consist of resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of each university and may be used at the discretion of the governing board to meet current expenses and for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the system's policy is to first apply the expense toward unrestricted resources, then toward restricted resources.

N. CLASSIFICATION OF REVENUES

The system has classified its revenues as either operating or nonoperating according to the following criteria:

- (a) Operating revenue includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; and (3) most federal, state, and local grants and contracts and federal appropriations.
- (b) Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as gifts and contributions, state appropriations, and investment income.

O. SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for services (tuition and fees) provided by each university and the amount that is paid by students and/or third parties making payments on the students' behalf.

2. CASH AND CASH EQUIVALENTS

At June 30, 2003, the system has cash and cash equivalents (book balances) totaling \$31,382,258 comprised as follows:

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Petty cash	\$4,152
Demand deposits:	
Noninterest-bearing	25,088,481
Interest-bearing	1,075,238
Time certificates of deposits	<u>5,214,387</u>
Total	<u><u>\$31,382,258</u></u>

Of this amount, \$9,160,626 represents restricted cash and cash equivalents. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2003, the system has \$36,851,585 in deposits (collected bank balances) that are secured from risk in the following manner:

Bank balances (collected balances):	
Insured (FDIC) or collateralized with securities held by the entity or its agent in the entity's name - GASB Category 1	\$601,316
Collateralized with securities held by the pledging institution's trust department or agent in the entity's name - GASB Category 2	<u>36,250,269</u>
Total bank balances	<u><u>\$36,851,585</u></u>

3. INVESTMENTS

At June 30, 2003, the system has investments totaling \$3,908,431 as shown on Statement A. These investments include unrealized losses of \$8,786. In accordance with GASB Codification Section 150.125, certain of the investments listed as follows are considered to be Category 1, which represents those investments insured or registered in the system's name or securities held by the system or its agent in the system's name.

A summary of system investments follows:

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Fair Value June 30, 2003
Category 1:	
U.S. government securities	\$537,896
U.S. Treasury notes and bonds	50,684
Total categorized investments	<u>588,580</u>
Investments not categorized:	
Mutual funds	693,375
Investments held by private foundations	<u>2,626,476</u>
Total	<u><u>\$3,908,431</u></u>

4. RECEIVABLES

Receivables are shown on Statement A net of an allowance for doubtful accounts as follows:

	Receivables	Allowance for Doubtful Accounts	Receivables (Net)
Student tuition and fees	\$3,143,014	\$1,016,123	\$2,126,891
Auxiliary enterprises	1,008,206		1,008,206
Federal, state, and private grants and contracts	11,666,671		11,666,671
Other	<u>2,330,677</u>	<u>1,037</u>	<u>2,329,640</u>
Total	<u><u>\$18,148,568</u></u>	<u><u>\$1,017,160</u></u>	<u><u>\$17,131,408</u></u>

5. NOTES RECEIVABLE

Notes receivable are comprised of loans to students under the Federal Perkins Loan program and Student Government Association loans. Loans are no longer issued under the Federal Perkins Loan program, but collections are still made on outstanding loans. Student Government Association loans are funded from self-assessed student fees and are available to qualified students for books and emergency financial needs.

Notes receivable are shown on Statement A net of an allowance for doubtful accounts at June 30, 2003. These receivables are composed of the following:

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	Notes Receivable	Allowance for Doubtful Accounts	Notes Receivable (Net)
Perkins Loan Program	\$2,665,850	\$2,664,856	\$994
Student Government			
Association loans	397,354	500	396,854
Long-Term Student Loans (Shreveport)	106,800	106,800	
Total	<u>\$3,170,004</u>	<u>\$2,772,156</u>	<u>\$397,848</u>

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ending June 30, 2003, is as follows:

	Restated Balance July 1, 2002	Adjustment	Adjusted Balance July 1, 2002	Additions
Capital assets not being depreciated:				
Land	\$6,921,842		\$6,921,842	
Construction-in-progress	6,567,619		6,567,619	\$1,464,665
Total capital assets not being depreciated	<u>\$13,489,461</u>	<u>NONE</u>	<u>\$13,489,461</u>	<u>\$1,464,665</u>
Capital assets being depreciated:				
Infrastructure	\$23,184,000		\$23,184,000	
Less accumulated depreciation	(21,619,080)		(21,619,080)	(\$173,880)
Total infrastructure	<u>1,564,920</u>	<u>NONE</u>	<u>1,564,920</u>	<u>(173,880)</u>
Land improvements	2,726,925		2,726,925	
Less accumulated depreciation	(2,399,494)		(2,399,494)	(51,733)
Total land improvements	<u>327,431</u>	<u>NONE</u>	<u>327,431</u>	<u>(51,733)</u>
Buildings	211,030,013		211,030,013	296,000
Less accumulated depreciation	(92,124,763)	(\$316,488)	(92,441,251)	(4,687,798)
Total buildings	<u>118,905,250</u>	<u>(316,488)</u>	<u>118,588,762</u>	<u>(4,391,798)</u>
Equipment	25,762,903	565,371	26,328,274	2,127,258
Less accumulated depreciation	(21,479,020)	(463,072)	(21,942,092)	(1,600,437)
Total equipment	<u>4,283,883</u>	<u>102,299</u>	<u>4,386,182</u>	<u>526,821</u>
Library books	97,870,680		97,870,680	1,285,484
Less accumulated depreciation	(95,470,232)		(95,470,232)	(1,234,910)
Total library books	<u>2,400,448</u>	<u>NONE</u>	<u>2,400,448</u>	<u>50,574</u>
Total capital assets being depreciated	<u>\$127,481,932</u>	<u>(\$214,189)</u>	<u>\$127,267,743</u>	<u>(\$4,040,016)</u>
Capital assets summary:				
Capital assets not being depreciated	\$13,489,461		\$13,489,461	\$1,464,665
Capital assets being depreciated	360,574,521	\$565,371	361,139,892	3,708,742
Total cost of capital assets	<u>374,063,982</u>	<u>565,371</u>	<u>374,629,353</u>	<u>5,173,407</u>
Less accumulated depreciation	<u>(233,092,589)</u>	<u>(779,560)</u>	<u>(233,872,149)</u>	<u>(7,748,758)</u>
Capital assets, net	<u>\$140,971,393</u>	<u>(\$214,189)</u>	<u>\$140,757,204</u>	<u>(\$2,575,351)</u>

Transfers	Retirements	Balance June 30, 2003
		\$6,921,842
(\$542,083)		7,490,201
(\$542,083)	NONE	\$14,412,043
		\$23,184,000
		(21,792,960)
NONE	NONE	1,391,040
\$542,083		3,269,008
		(2,451,227)
542,083	NONE	817,781
		211,326,013
		(97,129,049)
NONE	NONE	114,196,964
	(\$1,049,389)	27,406,143
	1,038,856	(22,503,673)
NONE	(10,533)	4,902,470
	(612,784)	98,543,380
		(96,705,142)
NONE	(612,784)	1,838,238
\$542,083	(\$623,317)	\$123,146,493
(\$542,083)		\$14,412,043
542,083	(\$1,662,173)	363,728,544
NONE	(1,662,173)	378,140,587
NONE	1,038,856	(240,582,051)
NONE	(\$623,317)	\$137,558,536

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

7. PENSION PLANS

Plan Description. Substantially all employees of the system are members of two statewide, public employee retirement systems. Academic employees are generally members of the Louisiana Teachers Retirement System (TRS), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. TRS and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. The State of Louisiana guarantees benefits granted by the retirement systems by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems; employee benefits vest with TRS after five years of service and with LASERS after ten years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Teachers Retirement System of Louisiana, Post Office Box 94123, Baton Rouge, Louisiana 70804-9123, or by calling (225) 925-6446 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600.

Funding Policy. The contribution requirements of plan members and each university are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8% (TRS) and 7.5% (LASERS) of covered salaries. The state is required to contribute 13.1% of covered salaries to TRS and 14.1% of covered salaries to LASERS for fiscal year 2003 and 13.1% of covered salaries to TRS and 13% of covered salaries to LASERS for fiscal year 2002. The State of Louisiana, through the annual appropriation to each university, funds the employer contribution. The employer contributions to TRS for the years ended June 30, 2003, 2002, and 2001 were \$5,391,837, \$5,037,560, and \$4,848,564, respectively, and to LASERS for the years ended June 30, 2003, 2002, and 2001 were \$3,287,238, \$3,017,691, and \$2,930,523, respectively, equal to the required contributions for each year.

8. OPTIONAL RETIREMENT SYSTEM

R.S. 11:921 created an optional retirement plan for academic and administrative employees of public institutions of higher education. This program was designed to aid universities in recruiting employees who may not be expected to remain in the TRS for ten or more years. The purpose of the optional retirement plan is to provide retirement and death benefits to the participants while affording the maximum portability of these benefits to the participants.

The optional retirement plan is a defined contribution plan that provides for full and immediate vesting of all contributions remitted to the participating companies on behalf of the participants. Eligible employees make an irrevocable election to participate in the optional retirement plan rather than the TRS and purchase retirement and death benefits through contracts provided by designated companies.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Total contributions by each university are 13.1% of the covered payroll. The participant's contribution (8%), less any monthly fee required to cover the cost of administration and maintenance of the optional retirement plan, is remitted to the designated company or companies. Upon receipt of the employer's contribution, the TRS pays over to the appropriate company or companies, on behalf of the participant, an amount equal to the employer's portion of the normal cost contribution as determined annually by an actuarial committee. The TRS retains the balance of the employer contribution for application to the unfunded accrued liability of the system. Benefits payable to participants are not the obligation of the State of Louisiana or the TRS. Such benefits and other rights of the optional retirement plan are the liability and responsibility solely of the designated company or companies to whom contributions have been made.

Employer contributions to the optional retirement plan totaled \$2,299,751 for the year ended June 30, 2003.

**9. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The system provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the system's employees become eligible for these benefits if they reach normal retirement age while working for the university. These benefits for retirees and similar benefits for active employees are provided through a state-operated group insurance program and various insurance companies whose monthly premiums are paid jointly by the employee and the system. The system recognizes the cost of providing these benefits to retirees (system's portion of premiums) as an expense when paid during the year. These retiree benefits totaled \$2,481,606 for the year ended June 30, 2003. The total number of retirees is 571 at June 30, 2003.

10. COMPENSATED ABSENCES

At June 30, 2003, employees of the system have accumulated and vested annual leave, sick leave, and compensatory leave of \$5,513,566, \$7,098,334, and \$58,282, respectively. These balances were computed in accordance with GASB Codification Section C60. The leave payable is recorded in the accompanying financial statements.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

11. DEFERRED REVENUES

The following is a summary of deferred revenues at June 30, 2003:

<u>Account Name</u>	<u>Amount</u>
Prepaid tuition and fees	\$2,309,660
Prepaid athletic ticket sales	1,220,806
Prepaid vending	9,409
Grants and contracts	<u>2,667,525</u>
Total deferred revenues	<u><u>\$6,207,400</u></u>

12. PAYABLES

The following is a summary of payables at June 30, 2003:

<u>Account Name</u>	<u>Amount</u>
Vendor payables	\$6,807,212
Accrued salaries and payroll deductions	<u>3,226,760</u>
Total payables	<u><u>\$10,033,972</u></u>

13. LONG-TERM LIABILITIES

The following is a summary of bonds and reimbursement contract payable and other long-term transactions of the system for the year ended June 30, 2003:

	<u>Balance, June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2003</u>	<u>Amounts Due Within One Year</u>
Reimbursement contract and revenue bonds payable	\$688,118		\$140,353	\$547,765	\$147,353
Compensated absences payable	<u>11,645,963</u>	<u>\$1,024,219</u>		<u>12,670,182</u>	<u>504,111</u>
Total long-term liabilities	<u><u>\$12,334,081</u></u>	<u><u>\$1,024,219</u></u>	<u><u>\$140,353</u></u>	<u><u>\$13,217,947</u></u>	<u><u>\$651,464</u></u>

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

The additions and reductions to compensated absences during the fiscal year ended June 30, 2003, represent the net change during the years because the additions and deductions could not readily be determined.

**14. BONDS AND REIMBURSEMENT
CONTRACTS PAYABLE**

Bonds and reimbursement contracts payable consisted of the following for the year ended June 30, 2003:

	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2002</u>
Expansion of Student Union Building Bonds Series 1974	February 15, 1974	\$1,400,000	\$205,000
A. W. Mumford Stadium Track Resurfacing Bonds Series 1993	November 1, 1993	650,000	439,000
Reimbursement Contract - Reroofing Dunn Hall	February 1, 1991	125,002	<u>44,118</u>
Total			<u><u>\$688,118</u></u>

The scheduled maturities of the bonds and reimbursement contract at June 30, 2003, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2004	\$147,353	\$36,555
2005	45,353	27,345
2006	48,353	24,441
2007	51,353	21,274
2008-2012	225,353	52,097
2013-2017	<u>30,000</u>	<u>2,125</u>
Total	<u><u>\$547,765</u></u>	<u><u>\$163,837</u></u>

<u>Redeemed</u>	<u>Outstanding June 30, 2003</u>	<u>Final Maturity Year</u>	<u>Interest Rates</u>	<u>Interest Outstanding June 30, 2003</u>
\$100,000	\$105,000	2004	6.2-6.25%	\$6,563
33,000	406,000	2013	7.0-8.5%	157,274
<u>7,353</u>	<u>36,765</u>	2007		<u>NONE</u>
<u>\$140,353</u>	<u>\$547,765</u>			<u>\$163,837</u>

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

The following is a summary of the debt service reserve requirements of the various bond issues outstanding at June 30, 2003:

	Cash/ Investment Reserves Available	Reserve Requirements	Excess
Expansion of Student Union Building Bonds - Series 1974	\$111,563	\$111,563	
A. W. Mumford Track Project	66,252	50,626	\$15,626
Total	<u>\$177,815</u>	<u>\$162,189</u>	<u>\$15,626</u>

15. LESSOR LEASES

The system's leasing operations consist primarily of the leasing of property for the purposes of providing food services to students and bookstore operations.

The following schedule provides an analysis of the cost and carrying amount of the system's investment in property on operating leases and property held for lease as of June 30, 2003:

<u>Nature of Lease</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Office space	<u>\$4,074,399</u>	<u>\$2,609,792</u>	<u>\$1,464,607</u>

As of June 30, 2003, the minimum future rental for the operating leases for fiscal year 2004 was \$1,093,096.

Minimum future rentals do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments occur as a result of sales volume. Contingent rentals amounted to \$56,341 for the year ended June 30, 2003.

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

16. RESTRICTED NET ASSETS

The system has the following restricted net assets at June 30, 2003:

	<u>Amount</u>
Nonexpendable - endowments	<u>\$6,095,243</u>
Expendable:	
Gifts, grants, and contracts	\$5,245,996
Quasi-endowments	1,477,532
Endowment income	245,643
Student fees	4,080,255
Student loans	547,366
University plant projects	3,180,687
Debt service requirements	<u>1,393,453</u>
Total expendable	<u>\$16,170,932</u>

17. RESTATEMENT OF NET ASSETS

The following adjustments were made to restate beginning net assets for June 30, 2002:

Net Assets July 1, 2002, Previously Reported	Adjustments + or (-)	Beginning Net Assets, July 1, 2002, As Restated
<u>\$165,385,867</u>	<u>(\$168,364)</u>	<u>\$165,217,503</u>

Adjustments to net assets at July 1, 2002, included the restatement of capital assets of \$779,560 for accumulated depreciation and \$611,196 for buildings.

**18. CONTINGENT LIABILITIES
AND RISK MANAGEMENT**

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund.

The system is involved in 12 lawsuits at June 30, 2003. In the opinion of legal counsel of the system, the total dollar amount of potential liability in presently prosecuted actions where there is a probable likelihood that an asset of the state has been impaired or a liability has been incurred as of fiscal year end June 30, 2003, is \$1,002,500. Any losses resulting from these lawsuits would be paid by the Office of Risk Management.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

The Southern University at New Orleans Campus has received a "final program determination letter" from the United States Department of Education requesting reimbursement of \$1,367,586 in federal funds. The university has appealed the determination.

19. RELATED PARTY TRANSACTIONS

During fiscal year ended June 30, 2003, the system had a relationship with the Southern University System Foundation. The Southern University System Foundation has a cooperative endeavor with the system to promote activities of the Southern University Athletic Department and coordinates the ancillary activities of the Bayou Classic weekend.

20. DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Southern University System Board of Supervisors to authorize expenditure of the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2003, net appreciation of donor restricted endowments is equal to \$1,097,033 of which \$1,097,033 is available to be spent for restricted purposes. The system limits endowment spending to the income earned in a given year for purposes specified by donors. The donated portion of the endowments is reported in restricted net assets - nonexpendable in the Statement of Net Assets; the endowment income is reported in restricted net assets - expendable.

21. FOUNDATIONS

The accompanying financial statements do not include the accounts of the Southern University System Foundation, the Southern University Shreveport Foundation, and the Southern University New Orleans Foundation. These foundations are separate corporations whose financial statements are subject to audit by independent certified public accountants.

The Southern University System has contracted with the Southern University System Foundation to invest the system's Endowed Chair for Eminent Scholars endowment funds and Endowed Professorship Program endowment funds, which were created in accordance with R.S. 17:3384. The Endowed Chairs for Eminent Scholars endowment funds are established for \$1,000,000 each, with \$600,000 of private contributions and \$400,000 of state matching portion allocated by the Board of Regents for Higher Education, while the Endowed Professorship Program endowment funds are established for \$100,000 each, with \$60,000 of private contributions and \$40,000 of state matching portion allocated by the Board of Regents for Higher Education. The original endowment base including the state matching portion and private contributions totaled \$2,549,365. At June 30, 2003, the Foundation holds in custody \$2,626,476 of Endowed Chair and Endowed Professorship endowment funds invested for the system.

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Certain operating expenses of the Southern University System Foundation for the year (assumed by Southern University System and included in expenses, Statement B) are summarized as follows:

Salaries and related benefits	\$152,906
Operating services	52,671
Supplies	480
Scholarships	<u>1,500</u>
Total	<u><u>\$207,557</u></u>

22. PER DIEM PAID BOARD MEMBERS

Members of the Southern University Board of Supervisors receive \$50 per diem for each day of attendance of board meetings, committee meetings, or while on business for the board, as authorized by R.S. 17:3206. A summary of per diem paid board members for the year ended June 30, 2003, is as follows:

<u>Name</u>	<u>Amount</u>
Belton, John	\$700
Alexander, Angela J.	650
Anderson, Johnny	800
Baptiste, Harrison J.	300
Bell, Dottie H.	800
Bilberry, Jesse B., Jr.	600
Caiton, Richard J.	950
Clayton, Antoinio M.	1,050
Dejoie, Bertel J.	500
Gilliam, Sam Albert	900
Guidry, Walter Jr.	1,050
James, Roderick	650
Joseph, John	900
Kiefer, Anne Z.	550
Lawson, Myron K.	500
Miller, Louis	550
Polk, Lea M.	<u>50</u>
Total	<u><u>\$11,500</u></u>

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

23. DEFERRED COMPENSATION PLAN

Certain employees of the Southern University System participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report of the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

24. SUBSEQUENT EVENTS

In a board meeting on November 17, 2003, the Southern University Board of Supervisors gave preliminary approval for \$95.4 million of construction projects. This includes construction costs of the following: \$58,800,000, \$18,800,000, and \$17,800,000 for the Baton Rouge, New Orleans, and Shreveport campuses, respectively. The Southern University System will be responsible for leasing land to the Southern University Foundation. The Foundation will be responsible for financing, constructing, and maintaining the facilities. The Foundation will lease the new structures to the System until the bonds are paid in full, at which time ownership of the structures will revert to the Southern University System.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
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December 17, 2003

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards*

SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the basic financial statements of the Southern University System, a component unit of the State of Louisiana, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Southern University System's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern University System's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter that follows involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Southern University System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

LEGISLATIVE AUDITOR

SOUTHERN UNIVERSITY SYSTEM STATE OF LOUISIANA

Compliance and Internal Control Report

December 17, 2003

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Deficiencies in Disaster Recovery Plan

The Southern University System (SUS) did not have an adequate disaster recovery/contingency plan to include offsite operations during a disaster. A formal disaster recovery/contingency plan should exist for timely restoration and continuity of critical entity operations in the event that normal data processing facilities are unavailable for an extended period of time.

An adequate disaster recovery plan should include, at a minimum, the following:

- A written functional plan that will allow for continued operation of critical information technology (IT) services in the event of an unexpected interruption.
- Routinely backing up data files, computer programs, and critical documents and storing this information offsite at a remote facility. This remote facility should either have the same operating systems as SUS or ready access to another processing facility so that data can be processed and operations can continue with minimal disruption of services.
- Installing environmental controls, such as fire suppression systems and back-up power supplies.
- Training for staff and other users of the system to ensure that they understand their responsibilities in case of emergencies.
- Testing of the plan.

Failure to implement a formal disaster recovery/contingency plan at SUS increases the risk that untimely or excessive delays in processing critical data may occur and that critical data may be lost. A disaster could have a significant impact on financial accountability, and SUS may not be able to continue business operations, including the processing of payroll and providing services to the public.

While the SUS has a written disaster recovery plan, the plan has never been tested and does not address back-up operations. In addition, the SUS does not have an adequate uninterrupted power supply (UPS) or fire suppression system. The UPS on the mainframe is not working properly and does not allow time to safely shut down during a power outage. The fire suppression system in the Technology Network Division computer room is inoperable.

LEGISLATIVE AUDITOR

**SOUTHERN UNIVERSITY SYSTEM
STATE OF LOUISIANA**

Compliance and Internal Control Report

December 17, 2003

Page 3

Management should test its disaster recovery/contingency plan to ensure the plan works as intended and will allow for continued operation of critical IT services in the event of an unexpected interruption. Management should have an offsite facility assigned that either has the same operating systems as SUS or ready access to another processing facility so that data can be processed and operations can continue with minimal disruption of services. Management should install environmental controls, such as fire suppression systems and back-up power supplies. Management should train its staff and other users of the system to ensure that they understand their responsibilities in case of emergencies. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described previously is not a material weakness.

This report is intended solely for the information and use of the Southern University System and its management and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large, stylized initial "G".

Grover C. Austin CPA
First Assistant Legislative Auditor

RC:WG:PEP:dl

[SU03]

Appendix A

Management's Corrective Action Plan and Response to the Finding and Recommendation



SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

BATON ROUGE, LOUISIANA 70813
(225) 771-2011

Baton Rouge, New Orleans,
Shreveport/Bossier City
LOUISIANA

Office of the President
(225) 771-4680

October 17, 2003

Fax Number:
(225) 771-5522

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
Baton Rouge, LA 70804-9397

RE: Deficiencies in Southern University System (SUS) Disaster Recovery Plan

Dear Mr. Austin:

We concur with the audit finding concerning the Southern University Baton Rouge Campus Mainframe Computer System which houses application software that services the entire Southern University System. The finding further indicates a written disaster recovery plan does exist; however, the specifics of the plan have not been tested for validity.

Listed below is the System's corrective action plan.

No.	Corrective Action	Responsible Party	Comments
1.	Establish Disaster Recovery Facility at Southern University at New Orleans (SUNO) for the Southern University at Baton Rouge (SUBR) Operation.	Nathaniel Felder, James Ambroise	A Mainframe Computer System will be installed at SUNO with the capability of being a Disaster Recovery Site for Southern University at Baton Rouge. Expected completion is May, 2004.
2.	Install a new Fire Suppression System in the Technology Network Division computer room at SUBR.	Huey Lawson	A new system has been identified and the necessary paperwork completed to make the acquisition. Plans are to have this system in place by December, 2003.
3.	Upgrade the Mainframe UPS at SUBR.	James Ambroise	The electrical system requirements will be checked and upgraded as needed. To be completed by April 2004.

Mr. Grover C. Austin
October 17, 2003
Page 2

No.	Corrective Action	Responsible Party	Comments
4.	Test the Disaster Recovery Plan for SUBR at SUNO.	James Ambroise, Nathaniel Felders	Ensure that SUBR administrative systems are functional on the SUNO Mainframe. Expected completion is June, 2004.

Overall coordination for these tasks will be handled by Mr. Jesse L. Smith, Director of Information and Technology Resource Management (ITRM).

Sincerely,



Leon R. Tarver II, Ph.D.
President
Southern University System